China's Coming Transformation

Foreign Affairs; New York; Jul/Aug 2001; George Gilboy and Eric Heginbotham;

Special Volume / Issue: Vol. 80, Issue: 4
Start Page: 26-39
ISSN: 00157120
Subject Terms: Economic reform
Foreign policy
International relations
Politics
Classification Codes: **1210**: *Politics & political behavior*
1120: *Economic policy & planning*
9190: *United States*
9179: *Asia & the Pacific*
Geographic Names: China
United States
US

Abstract:
Over the past decade, China's leaders have pursued rapid economic reform while stifling political change. The result today is a rigid state that is unable to cope with an increasingly organized, complex and robust society. China's next generation of leaders, set to take office in 2002-2003, will likely respond to this dilemma by accelerating political reform-unless a new cold war with the U.S. intervenes.

Full Text:

THE MAIN EVENT

Social forces unleashed by China's economic reform over the last 20 years are now driving inexorably toward a fundamental transformation of Chinese politics. Since the suppression of the 1989 student protests in Tiananmen Square, China's leaders have struggled to maintain the political status quo, even while pursuing rapid economic reform. The result today is a nonadaptive, brittle state that is unable to cope with an increasingly organized, complex, and robust society. Further efforts to resist political change will only squander the benefits of social and economic dynamism, perpetuate the government's costly battle to contain the populace, drive politics toward increasingly tense domestic confrontation, and ultimately threaten the system with collapse.

Many of today's senior Chinese officials recognize this dilemma but have powerful personal motivations to resist change. The next generation of Chinese leaders, however -- set to take office in 2002- 3 -- is both more supportive of reform and less constrained by Tiananmen-era political baggage. These new leaders will likely respond to the dilemma, therefore, by accelerating political liberalization.

This does not imply that China will soon become a Western-style democracy. Rather, the coming steps in reform will likely include measures to legitimize independent social organization, give citizen groups increased input in policymaking (in exchange for some limits on their activities), and develop greater intraparty democracy. These changes will be

difficult, and in the near term, they are as likely to throw China into domestic turmoil as they are to create a stable partial democracy.

This coming political reformation is the main event in China, and it has critical implications for Sino-U.S. relations. Events such as the recent collision of a U.S. spy plane with a Chinese fighter jet near Hainan Island, the detention of foreign academics in China, or even rhetorical skirmishes across the Taiwan Strait cannot by themselves derail or even significantly delay the forces of change. The event most likely to disrupt the coming reform effort would be the emergence of a clearly adversarial relationship between the United States and China -- a new cold war. Such a development would reinforce the position of Chinese conservatives and militarists and weaken the forces that are currently driving change. Accordingly, U.S. policy should be restrained and carefully calibrated to maintain regional security while encouraging continued reform and liberalization in China.

BRITTLE STATE

China's current leaders view politics through the prism of two central episodes in their political lives: the Cultural Revolution of the mid-1960s and the 1989 Tiananmen Square demonstrations. The Cultural Revolution made today's leaders averse to radicalism and mass action, and the Tiananmen demonstrations made them wary of social and political liberalization. These two experiences have framed the boundaries of "safe" and "stable" politics in China -- not too radical, not too liberal.

In the days leading up to the Tiananmen crackdown, the Communist Party's senior leaders came to believe that the demonstrations, if left unchecked, could lead to the violent overthrow of party rule and the onset of social chaos. Firmly implanted in their minds was China's vivid history of small gatherings growing into large movements, often followed by violence and unrest. To these leaders, the Tiananmen demonstrations confirmed that limited political dissent could rapidly attract support from other groups seeking to vent their own dissatisfactions. Indeed, the student gatherings in 1989 began not as protests but as spontaneous mourning for the death of the relatively liberal party leader Hu Yaobang. Once gathered, however, the students quickly added calls for accelerated economic and political reform. Senior party leaders were caught off-guard by the students' vehement criticism and swift organization. They were even more alarmed by the other groups that coalesced in support of the students, especially well-organized urban workers. After weeks of demonstrations and fruitless negotiations, the protesters were finally dispersed by the military, at the cost of many lives.

In the years since, China's leaders have shown little tolerance for challenges to their authority. Although Western headlines tend to focus on Beijing's tough stance against public protests, even more important for China's future may be the regime's general intolerance of independent social organization. The government has not permitted the rise of representative institutions capable of giving people a feeling of participation or investment in the governing system. This unwillingness to deal with groups that are not dominated and controlled by the party locks the state in a constant struggle to hold back a rising tide of self-organizing social and economic entities.

The political rigidity of the current regime stands out when compared to the flexibility of

Deng Xiaoping's 1980s leadership. Before 1989, Deng had promoted intraparty democratization, village elections, and the devolution of power to the provinces. He had even promoted the separation of party and state to reduce the Communist Party's interference in administrative affairs. In contrast, the current generation of leaders, including President Jiang Zemin, has eschewed further political and institutional reform in favor of accelerating economic reform.

Despite the current regime's unwillingness to move forward on political reform, Chinese politics and society have remained more stable than most foreign observers predicted in the aftermath of Tiananmen. Since the 1989 uprising, no political dissident movements have been able to inspire similar widespread public support. This quiescence is not simply attributable to the coercion and suppression of civil society. Over the last ten years, Beijing has sustained its nonadaptive state by scoring a series of economic and social successes that have appreciably improved the quality of life for most Chinese.

The most important of these achievements has been increased material prosperity. According to official statistics, China's annual real GDP growth averaged 9.7 percent between 1989 and 2000. In aggregate terms, real urban incomes more than doubled over the same period. For many Chinese families, the increased prosperity of the 1990s can be measured by the new range of goods that they can now afford. The prizes of the 1980s included basic items such as refrigerators and television sets. Today, many Chinese families find computers, designer clothes, mobile phones, and home-entertainment centers within their reach as well.

This growing prosperity is the result of the Chinese government's commitment to structural economic reforms. Measures to legitimize private capital and grant private firms the same legal rights as state-owned businesses have laid the foundation for sustained, market- based growth. Today, more than 40 percent of industrial output comes from private companies, and more than 30 percent of nonagricultural employees work for private or mixed-ownership firms. (In contrast, virtually no privately owned industrial firms existed in 1979 when Deng's economic reform began.)

Beijing has also achieved greater integration with the global economy. China's international trade has more than quadrupled, from $112 billion in 1989 to $474 billion in 2000, and no other country in the world, besides the United States, receives more foreign direct investment. Between 1996 and 1999, China's FDI totaled $126 billion - - more than six times that of Japan. Beijing's commitment to join the World Trade Organization (WTO) will further open the economy to foreign trade, investment, and international supervision.

Along with these economic reforms have come greatly expanded personal liberties. Individual Chinese, especially city-dwellers, are now free to create their own lifestyles: they can move about the country, start their own businesses, and express themselves on a wide range of issues. Those who wish to travel abroad can now obtain passports to do so, provided they have enough money. Even China's controversial one-child policy, often a target of criticism in the West, has been relaxed, first in rural communities and more recently in Shanghai.

Jiang's regime has been able to achieve all this while delivering what has been perhaps the

most stable decade in the last 150 years of China's tumultuous history. This stability taps into a deep-seated longing among many Chinese to leave behind the misery of past foreign invasions, civil wars, and violent mass political movements. Not only has it provided an environment conducive to economic growth, but it has made most people feel secure that today's newfound wealth can be enjoyed tomorrow.

These achievements have offered both the means and the incentive for new groups to form and organize. But the Chinese leadership, fearful of political dissent and social organization, has been unwilling to adapt politics to new social realities. This reluctance has resulted in a brittle state that is increasingly unable to sustain the social stability and economic growth of the past decade.

ROBUST SOCIETY

Armed with greater wealth and liberty, Chinese society has gained a spirited life of its own, generating a constant stream of both formal and informal organizations. Most of this activity -- from labor movements to consumer advocacy to animal-rights activism -- is normal and healthy in any market-based economy. But when social dynamism is suppressed, some of its energy is channeled into unhealthy activities, such as violent protest. All of this requires the state to find new ways to understand, mediate between, and govern groups in society. One thing is certain: the regime's current methods of social control will not work.

The state's ability to control and coerce the populace has withered. For example, urban neighborhood committees, one of the regime's key means of monitoring its citizens, have dramatically declined in power and relevance. These committees once dominated life in the pervasive housing tracts run by state-owned companies. Through their connection to the work unit, or danwei, they ruled over critical aspects of everyday life, such as housing, employment, and benefits, controlling society at the neighborhood level. But over the past two decades of economic reform, rising incomes, a growing private sector, the contraction of state firms, and the privatization of housing have all conspired to weaken the neighborhood committee system. In the countryside, the decline of collective farming has led to a similar relaxation of state control over the lives of individuals.

A fundamental shift in the balance of power between Chinese state and society is underway. With each passing day, the government understands less about its own people, while its power to affect social outcomes wanes. Meanwhile, the number of "actively dissatisfied" groups has grown. In 1989, political dissent was largely limited to activist students, a few reform politicians, and some urban workers. Today, however, new powerful actors have emerged to press for their own interests.

Farmers. With increasing frequency, Chinese farmers are organizing to protest corrupt local officials, onerous and arbitrary taxes, and extreme poverty. In recent months, farmers have attacked tax collectors, blocked roads, and fought with officials and police. In April 2001, for example, more than 600 police and paramilitary troops stormed the southern village of Yuntang, where villagers had barricaded the only road into town and steadfastly refused to pay taxes that they called illegal and unreasonably high.

The unemployed. As economic reform continues, millions of Chinese workers are being laid off each year with little hope of reemployment or adequate social welfare support. In some

cities, unemployed workers are now joining together in large-scale protests, involving as many as 20,000 people at a time. Such demonstrations wracked the northeastern cities of Huludao and Liaoyang in the spring of last year. And similar disturbances now occur almost daily in cities and towns throughout the country.

Consumers. Today's Chinese consumers frequently speak out and organize against defective products, financial scams, and official corruption. When these actions are aimed at state agencies or firms, they highlight the government's conflicts of interest as well as the weakness of economic and regulatory institutions. Consumer dissatisfaction may soon become more apparent in China's ill- regulated domestic stock market, in which the government has been encouraging individual investment. Most Chinese investors interpret this encouragement as government assurance that they will make money, and they are likely to hold the government, not the market, responsible for any major shakeout.

Industry associations. Because China's official industry associations are weak and dominated by the Communist Party, they are unable to mediate effectively between industry and government. Yet some industry leaders have coalesced to force the central government to change policies on taxes, international trade, and price reforms. Still, these groups are neither formal nor transparent to the rest of society. They do not fully represent the collective interests of their sectors, nor are they held accountable for their activities. Private entrepreneurs and even state-enterprise managers are now pressuring the government to grant greater independence to official industry associations or to formally recognize unofficial ones. Ironically, working with democratic, independent industry groups is not unknown in China. The central government (and many local governments) already regularly meet with chambers of commerce and industry associations that represent foreign firms in China, often consulting them on key regulatory and policy issues.

Labor unions. Although China's official labor unions, like its formal industry associations, are dominated by the Communist Party, many of them are now pressing for greater organizational independence. And despite the arrests of many would-be organizers of unofficial unions, attempts to establish new, fully independent labor groups continue. Even foreign firms in China have asked the government to allow the formation of stronger, more representative unions because they believe such groups will help their managers better negotiate with their workers.

Religious and spiritual movements. The rise of the Falun Gong is only the most visible indication of resurgent spiritualism in China. Traditional religions, mystical movements, and cults have attracted millions of followers in recent years. Some observers estimate that 30 million Christians now live in China, about half of them belonging to underground churches. In Beijing alone, the number of unauthorized churches has reportedly grown from 200 in 1996 to around 1,000 today. Despite a recent government crackdown that destroyed hundreds of unsanctioned churches and temples, the state will be hard pressed to keep up with today's ever-quickening pace of spiritual activity.

Special-interest groups. A variety of nascent special-interest groups, ranging from environmental and animal-rights organizations to regional soccer clubs (which are sometimes prone to hooliganism), now place new demands on the state for resources and attention. For example, environmental groups -- some with nationwide reach -- have

sponsored direct actions such as tree-planting programs and petitions calling for better municipal waste management. Such groups provide important services to society, but their potential for mobilizing people on a regional or even nationwide scale makes the government nervous.

Separatists. Finally, separatist groups continue to challenge the regime's authority directly. Tibetans have long resisted Chinese rule, sometimes with peaceful protest, sometimes with violence. Muslim separatists in the westernmost province of Xinjiang receive training and weapons from Muslim groups in Central Asia and are engaged in armed confrontation with the state. Their most militant elements attack police, soldiers, and other government officials, and the state has responded with equal force. According to estimates from international observers, 210 people were sentenced to death for separatist activities between 1997 and 1999.

It is becoming difficult for the Chinese government to ignore or conceal these social changes. Information on even the most sensitive topics is available from foreign sources across increasingly porous borders, and even China's state-run media have become a regular source of news on many domestic problems. As a result, nearly everyone in China today is aware of the beneficial work of entrepreneurs, consumer groups, and animal-rights activists. They also receive detailed reports about railroad disruptions and factory seizures by disgruntled workers, as well as pervasive corruption among village officials. Increased access to information has helped create a public opinion in China, and the regime already feels obliged to respond.

RISING TO THE CHALLENGE

Coping with China's increasingly organized and informed society is the greatest challenge facing Beijing's next generation of leaders. The nation's new leaders will seek ways not only to maintain continued economic growth but also to reinvigorate legitimacy and popular support. A key element of this reformation will be greater acceptance of and dialogue with legitimate independent associations. Both state and society would benefit from the success of such efforts. The state would be better able to govern, and society would enjoy greater pluralism and new limits on state intervention.

China's new leaders will likely choose change over retrenchment for three reasons. First, many senior officials already recognize that the task of confronting society is becoming more burdensome and difficult. The stability of the last decade is showing signs of wearing thin. According to a speech attributed to Prime Minister Zhu Rongji, China suffered 117 incidents of armed, violent protest last year. Those incidents resulted in more than 4,300 casualties, of which more than half were party cadres and government officials. In some of these cases, thousands of security personnel were mobilized before order was restored.

Although these protests have not yet reached the size and significance of the 1989 Tiananmen demonstrations, they have been enough to lead some party officials to question Beijing's current inflexibility on social and political issues. For example, several senior provincial police cadres -- overwhelmed by their duties to contain the Falun Gong -- have reportedly petitioned the leadership to take a more accommodating approach toward the spiritual group. For some business managers, many of whom are also party members, the

crackdown and its associated political study sessions have diverted attention from pressing administrative, commercial, and management problems. Indeed, dissent within the party on the Falun Gong issue may run deep: even some top officials may believe that the government's policy has gone too far.

A second incentive for political reform is that the continued suppression of social organization and institution building threatens to hamper economic development. Weak institutions contribute to waste and inefficiency, discourage investment, and limit the prospects for further rapid growth. Foreign firms in China have long complained about the lack of market information, clear regulations, enforceable contracts, and good coordination among suppliers. The costs of these inadequacies are also high for Chinese companies. Weak economic institutions -- such as the party-dominated labor unions and industry associations -- cannot effectively exchange people and information, pool resources, set standards, present policymakers with unified industry views, or even adequately interact with one another. These shortcomings result in fragmented industries, isolated firms, and poorly informed managers, all of which raise costs and discourage investment in new, productive businesses.

The weakness of economic institutions also threatens to retard the technological learning and innovation that is critical for future productivity gains and economic growth. Innovation is not simply a matter of money, science, or market competition -- although all three elements are essential. Innovation also requires close interaction among firms, universities, research and development institutes, and all levels of government. In many of the world's most innovative countries, this interaction often occurs through regional development agencies, industry and professional associations, and sector- specific financial consortia. Yet in China, despite appeals by industrial leaders and even state science and technology officials, the regime's reluctance to accept independent civil society has stifled the development of such organizations. Beijing's Zhongguancun area -- often called China's Silicon Valley -- has generated little real innovation, largely because it lacks the dense interfirm networks and cooperative business culture that has made America's Silicon Valley so successful.

The third reason that China's new leaders will likely choose change stems from their personal affiliations and career interests. The clear front-runner to replace Jiang is Vice President Hu Jintao, whose political background is in the Communist Youth League, a relatively liberal wing of the party. Even though Hu may not emerge as the primary driver of political reform (and indeed may take a relatively cautious position on that issue), he will likely try to promote an unprecedented number of officials with Youth League and other reform-related backgrounds. This drive may be complemented by the efforts of today's reform-minded leaders (such as Zhu Rongji and Li Ruihuan) to promote their own proteges.

Regardless of who gains which specific posts in the government, powerful political motivations may also drive the new leadership toward reform. In the decade since the Tiananmen Square crisis, many hard-line leaders have passed from the scene, and those that remain have become more vulnerable to major revisions of the verdict on that issue. Accordingly, those untainted by the legacy of Tiananmen are increasingly tempted to leapfrog over their seniors by seizing the banner of reform. This trend has already begun, with the disclosure of the Tiananmen Papers and other documents now being smuggled out

of China by factions of the Communist Party.

CONTAINING CHINA'S REFORM?

For China's next generation of leaders, political reform will center on allowing independent social organizations to formally represent their interests, strengthening intraparty democracy, and increasing the separation of the Communist Party from the state. These measures will recast relations between state and society and could be the first steps toward greater political pluralism. The experiences of South Korea, Mexico, and Taiwan demonstrate that a variety of paths can lead from one-party rule toward political liberalization. None of them offers a quick and painless transition to full democracy. Rather, they entail a gradual conciliation with society's new forces and a phased-in introduction of democratic institutions and values.

Nor is success guaranteed. It will be difficult to govern China's huge, powerful, and potentially fractious society during the inevitable disruptions of a major transition. Even if intent on reform, China's new leadership could botch the job. If it does, the China of tomorrow could look more like today's Indonesia or Yugoslavia than South Korea or Taiwan. Whatever the outcome, China is on the cusp of more than just a change in leadership personnel. The coming set of reforms is likely to set in motion a process of political change that may be longer and more tumultuous than anyone has yet imagined. Despite these risks, however, it is in the interest of Beijing's next generation to attempt reform. And it is in the interest of the United States to encourage them to do so.

The advent of a new cold war between the United States and China, however, would discourage Beijing's new leaders from pursuing political reform. Explicitly adversarial Sino-U.S. relations would validate Chinese conservatives' arguments about American intentions to weaken China and would leave Chinese liberals open to charges of treason. Moreover, even tomorrow's moderate leaders would be unlikely to run the high risks of reform if they feared the United States might exploit Chinese political divisions. Hence, although the United States needs to defend its legitimate interests in East Asia, it should do so in a restrained manner that provides the least ammunition for reactionary critics in China. In short, Washington should avoid a containment policy that would actually contain China's reform process.

Although dramatic change may still be several years away, moderation and restraint in U.S. policy are needed now. Today's reform-minded leaders are struggling to promote their proteges to key positions in preparation for the coming political transition. The next generation, which will govern China until at least 2008, is still being forged, and specific personnel selections will have a decisive impact on the prospects for reform. It will be difficult, however, for relatively liberal officials to rise to key positions if Sino-U.S. relations descend into cold war.

The United States can take steps to avoid increasing tensions without compromising its core interests. One of the least costly -- and most effective -- measures is rhetorical moderation. Although suggesting that China could become a "strategic partner" (as the Clinton administration did) was premature but benign, labeling China a "strategic competitor" (as some in the current administration have done) is both premature and pernicious.

The United States should also focus greater attention on the strategic and diplomatic implications of its tactical military activities. Although the U.S. military presence in East Asia generally enhances regional stability, some types of military activities can have adverse effects. China's handling of the recent spy-plane crash near Hainan angered most Americans. Yet American surveillance close to Chinese borders had been conducted at a Cold War level of intensity for a year before the incident occurred. Such U.S. activities may not violate international law, but the intensity and manner in which they have been conducted recently has created an image of a hostile United States without commensurate gains for American security interests.

Indeed, a more measured approach to secondary security interests would enhance U.S. leverage on more vital issues, such as halting the proliferation of missiles and weapons of mass destruction (wmd) and encouraging a peaceful resolution of the standoff across the Taiwan Strait. Confrontation could convince China's leaders that wmd proliferation is in their national interest, whereas a firm but more businesslike relationship would help persuade them that it is not. By focusing on core issues, America's voice on them will be amplified.

Chinese civilian leaders, especially those about to take the helm in 2002-3, do not want a new cold war. Confrontation with the United States would jeopardize China's economic reform program and continued prosperity. A cold war would also diminish the civilian leadership's authority relative to that of the military. Having struggled for 20 years to curb the army's role in domestic policy, civilian leaders would be loath to invite the resurgence of military influence that would accompany a descent into cold war.

Moreover, the civilian leadership's ability to use confrontation with the United States to gain popular support for the party is severely limited. Beijing does use historical education to promote the ideas of national unity and past victimization. The government has also permitted the limited expression of social anger immediately following events such as the accidental U.S. bombing of the Chinese embassy in Belgrade. But in all such cases officials have moved quickly to contain domestic passions for fear that even nationalist movements may ultimately threaten the regime itself.

Change is the main event in China, and America should welcome it. Chinese hard-liners will not be able to stop the coming political reform -- unless they are aided by an adversarial attitude from the United States. As a great power, the United States can best serve its own interests, as well as those of the Asian region, by behaving with the restraint and grace befitting its status.

George Gilboy and Eric Heginbotham are Ph.D. candidates in political science at the Massachusetts Institute of Technology. Gilboy studies industrial technology development and economic institutions in China. Heginbotham studies Chinese civil-military relations and grand strategy. Both have lived in China for more than five years.
